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SUBJECT: BUSINESS ENTERPRISES IN THE FERGHANA VALLEY

Classified By: CLASSIFIED BY RICHARD FITZMAURICE AND STEVEN PROHASKA FOR REASONS 1.4 (B, D).

¶1. (C) Summary: During a visit to the Ferghana Valley on September 12-13, poloffs met with two former recipients of USAID grants, the Namangan Credit Union and the Ferghana-based Unicons consulting firm. These enterprises show that some of the Uzbek people's traditional entrepreneurial spirit persists despite the difficult business climate. End summary.

#### NAMANGAN CREDIT UNION COOPERATES WITH LOCAL GROUPS

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¶2. (C) Poloffs met with representatives of the Namangan Credit Union, which appears to have enjoyed increasing profits since its opening in 2002 thanks to good advertising and experienced personnel. Representatives stated that they had given roughly 451 million soums (355,000 dollars) in loans over this timeframe. The average size of a loan has been 2.5 million soums (2,000 dollars), and the credit union charges a monthly interest rate of between five and six percent. Their primary goals include the development of business and improving the living conditions of the population. Interestingly, the representatives said that the percentage of men receiving loans has been increasing in the last year. Before 2007, women represented approximately 70 percent of loan recipients because initially women were specifically targeted, but this year, 55 percent of loan recipients have been women.

¶3. (C) The leader of a mahalla--a community institution involved in local decision-making--and a leader of the local branch of the Women's Business Association also attended the meeting. They noted that the help of their respective organizations to the union had improved the credit union's business and decreased the default rate, which has been less than one percent for 2007. Representatives of the credit union noted that there were 52 commercially registered banks and 150 mini-banks in Namangan province, but the Namangan Credit Union was more successful than the competition because of its greater efficiency. The credit union also currently pays a yearly interest rate of 30 percent on deposits, as opposed to an average of only 24 percent at commercial banks. They appeared optimistic about the role their organization plays in society, claiming that unemployment in the province was decreasing. (Note: Given the presence of the mahalla leader, who reports to local authorities, such statements

have to be taken with at least a grain of salt. End note.)

#### UNICONS STRUGGLING TO CARVE OUT PROFITABLE NICHES

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¶4. (C) Members of the Ferghana-based Unicons consulting firm, which opened in 2000, also spoke with Poloffs. Unicons currently has between 15 to 20 paying clients, which include three joint ventures in the Ferghana Valley with German, Korean and Indian companies. Their work includes providing information technology services. They noted internet access is becoming more widespread, especially in the last year (Note: It is still far from universal. The next day, a human rights contact told poloff that Rishton, a large town in Ferghana province, lacked any type of internet access. End note.) The internet technician at Unicons told poloffs that it costs about 200 dollars to set up a website, and monthly hosting costs between two and five dollars.

¶5. (C) Unicons is involved in other business as well. In April the firm became involved in a profitable project exporting fish from fish farms in Navoi province and Khojand (Tajikistan) to Russia and Germany, and the firm was planning to expand this operation in the future. The firm also plans to build a branch in Samarkand to benefit from Chinese plans to sell products on the Samarkand manufacturing market.

¶6. (C) The Unicons representatives noted that the business climate in Ferghana remains difficult due to significant barriers and decreasing profit margins as a result of rising prices. When asked by poloffs, they said that a major problem for local businesses is securing loans from banks due to a lack of collateral. Another major problem for foreign

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companies is currency conversion. According to the Unicons representatives, it now takes between 45 to 60 days to convert currency, and the wait is longer in the regions other than in Tashkent. (Note: In general, AMCHAM and other business contacts tell us that conversion takes three to four months for currency leaving Uzbekistan. End note.) Unicons representative said that they advise clients to plan ahead and assume it will take at least two months to receive their profits in hard currency.

¶7. (C) Comment: Enterprises such as the Namangan Credit Union and Unicons show that some of the Uzbek people's traditional entrepreneurial spirit persists despite the difficult business climate. Though representatives of the Namangan Credit Union (speaking in the presence of a mahalla representative) dismissed talk of rising prices and claimed that unemployment in the province was decreasing, other residents of the Ferghana Valley view the economic situation much more negatively (septel).

NORLAND